HAISMAN WEALTH MANAGEMENT

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The Investment Plan

BY DONALD L. HAISMAN, CFP®

This is the second in the series of articles outlining what goes into the Haisman Wealth Management Inc. written Investment Plan that describes your investment strategy. You were most likely provided an Investment Plan or similar plan at the beginning of our professional relationship.

In part one of this series, which debuted in last quarter's newsletter, we discussed the overall steps we take in the development of a client *Investment Plan*. Here we will discuss in more detail the development of the investment strategy.

Asset Allocation is broadly defined as an investment strategy which assigns specific percentages of a portfolio to the different asset types discussed earlier. The portfolio is then periodically rebalanced to the target percentages. The Theory behind asset allocation is that by spreading exposure across several asset classes risk can be reduced in the overall portfolio.

At Haisman Wealth Management, Inc. we take a tactical approach to asset allocation. A tactical approach is grounded in the premise of similarly having exposure to multiple asset classes, but the tactical part of the strategy is to use the concept of relative strength to determine the weighting of each asset class, and that weighting won't stay exactly the same over time; it will fluctuate depending on trends in the market.

Our relative strength strategy is designed to look at the six asset classes and then determine which two should be *Emphasized Asset Classes* based upon a relative strength ranking system. At any one time, two asset classes are overweighed, with Cash alternatives being the only asset class that can occupy both spots.

The foundation of our tactical asset allocation process is that three (or more) asset classes will usually always be represented in the portfolio. A 35% weighting is made to each of the two *Emphasized Asset Classes* which equals 70% of the portfolio. The remaining 30% will be allocated to one or two *Secondary Asset Classes* depending on

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Foreclosed Homes......

Does It Make Good Investment Sense?

The national mortgage delinquency rate grew to 9.2 percent in May, up 2.3 percent from a month earlier and 7.9 percent from a year earlier, according to the latest report from mortgage performance data and analytics provider Lender Processing Services.

RealtyTrac, a leading online market for foreclosure properties, believes that current foreclosure prevention programs and processing delays are keeping a lid on the numbers. If those programs end and processing glitches lift without an upswing in the economy or job market, foreclosures could accelerate. According to RealtyTrac, in Lee County there are currently 4,204 homes in foreclosure and 739 homes for sale.

For individuals with some money to spend and invest, the troubled home market has its attractions. First, there's the possibility of attractive real estate, albeit some in need of serious repair – at a bargain price. Then there are the sellers, both banks and individuals, who are, at best, eager, at worst, desperate to get out from under their obligations. But the trail to ownership of properties that are under a cloud can be treacherous and it's best to know what you're

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Foreclosed Homes - Does it make Good Investment Sense?

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doing. It's wise to consult your accountant and Haisman Wealth Management, Inc. before making a move into this risky arena. Here are some of the things potential investors should know:

How foreclosure works:

A foreclosure happens when a buyer defaults on their payments and their lender takes legal steps to take back the property. Rules vary by state and local government, but generally, when a lender decides to foreclose on a property it files a notice of default or a *lis pendens* (Latin for "lawsuit pending"). This document is a public record, and for buyers, including other lenders, it's the first step in locating a property in foreclosure. A buyer looking for foreclosures can look online (RealtyTrac is a good source) for lists of properties in default, but individuals with contacts inside lenders, holding these properties, have a particularly good leg up.

Pre-foreclosure sales are attractive, but often tough to close.

With so many homeowners struggling with payments, "pre-foreclosure" or "short sale" transactions are currently common, but fraught with obstacles. Short sales essentially allow a seller to sell their home for less than they owe as long as they get their lender to buy their story about a lost job or other financial hardships. The second obstacle is getting a real estate agent to work to sell the property for a far lower commission than they usually get. Third, many states allow for very tight timeframes between the notice of default (the first news a homeowner is facing foreclosure, if they're checking their mail) and an actual foreclosure notice. Deals of this variety need to close within days, not months.

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How do people invest in foreclosure properties?

There are three primary ways this happens. First, you will see buyers coming in at the "pre-foreclosure" stage. Second, you will see buyers going after "REO" (real estate owned) properties, literally foreclosed real estate still on the books of a lender. Third, you'll see foreclosures auctioned off at the county courthouse or in private auctions, depending on how the lender wants to market such properties to get them off their hands. Each process has its own conventions for inspecting the properties, sometimes prospective buyers get time to inspect what they might buy, other times little or no inspection is done. It's best to learn the process as a bystander before putting any skin in the game. The most knowledgeable foreclosure investors also have good intelligence on how heavy the lender's inventory is with troubled properties. The more headaches they want to get rid of, the faster they'll get rid of them.

Is it wise to borrow?

Given the current state of the lending industry, such a question might be a moot point even for the most-creditworthy individuals. Buying distressed property is primarily a cash game. It lowers the cost of entry and speeds these kinds of trans~~actions where tim~~e is definitely of the essence. Even sophisticated foreclosure investors often discover ugly surprises when buying (property with greater damage than they anticipated, for example) and they may not have the flexibility to borrow to fix those unexpected problems after they borrowed to buy in the first place.

CHANGE IS AROUND THE CORNER FOR S-CORPORATIONS

BY CRAIG D. WHITAKER, CPA

Like many of us small business owners, we have organized our businesses in such a fashion to take advantage of favorable tax treatment allowed by filing an S-Corporation. S-Corporations have long proven to be the entity of choice for those successful business entrepreneurs who would like to minimize their self employment income tax. Historically, an S-Corporation owner could pay him or herself a reasonable salary out of current profits and distribute the remaining profits as owner distributions, which are not subject to social security and Medicare taxes. This has resulted in thousands of dollars of savings annually for many owners.

Unfortunately, all good things in life must come to an end, right? Under the new American Jobs, Closing the Tax Loopholes and Preventing Outsourcing Act of 2010, which passed the house on May 28, 2010, there is a provision that would crack down on S Corporations engaged in professional service businesses that is principally based on the reputation and skill of 3 or

fewer individuals. It would force them to pay self employment tax on all of their earnings. A professional Service Business is defined as any trade or business in which substantially all of the activities involve providing services in the fields of health, law, lobbying, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, investment advice or management, or brokerage services.

So what does this mean for you? Unless the Senate strips this out of the current bill before its passed into law, which there is talk about this happening, starting January 1, 2011, if you have an S-corporation in any of the above listed categories you will be subject to Social Security and Medicare taxes on every dollar of net profit earned in each year. Depending on your situation, you may have planning opportunities to help reduce the burden of this new act before it takes place. Consult your tax advisor and have them look into your unique situation before it's too late.

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Planning for a Child's Private School Education

Sending a child to private primary and secondary school is an expensive proposition. Because of this many grandparents are assisting financially in the education of their grandchildren. Some parents have the income that makes this easier, but for the rest, it's necessary to create a pay-as-you-go system that will somehow make it all work.

The parents and grandparents who make it work tend to plan from the time the child is very young. They keep abreast of every possible resource for scholarships, discounts, loan programs, and other forms of financial aid. Also consider state plans like the Florida Prepaid College Plan.

Haisman Wealth Management Inc. can help you link a child's pre-college education planning to the financial planning necessary for college, grad school and beyond. Here are some things to know about the process:

Start with cost: The National Association of Independent Schools

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their relative strength. So if domestic equities are showing the strongest relative strength followed by international equities, then 35% will typically be in Domestic Equities and 35% will typically be in International Equities.

When equities are the weakest of the asset classes and cash alternatives are the strongest based upon our relative strength calculations, the portfolio could hold 70% in cash alternatives in the two *Emphasized Asset Classes*. If cash alternatives happen to be the strongest in the *Secondary Asset Classes*, it is possible that the remaining 30% could also be in cash alternatives.

We feel this strategy provides a systematic and disciplined way of overweighting asset classes when they are in favor on a relative strength basis, and it also provides a way of putting cash alternatives into the mix when there is no better place to be.

The relative strength strategy doesn't stop with just determining the strongest asset class. The next step is to use the relative strength methodology to determine which are the strongest securities *within* the *Emphasized Asset Classes*. There can be a significant benefit in skewing the portfolio toward those sectors performing the best, provided you don't jump in at the top. Of course we will not know where the top is since we do not have a crystal ball. Sometimes the Domestic Equity space will be overweighed in energy and other times it might be technology, and yet other times it might be healthcare. We believe the underlying methodology to determine this is the relative strength ranking system of comparing sectors to each other to determine which sectors are the strongest.

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(NAIS), a national organization representing private pre-schools, elementary and secondary schools, estimates that the median annual tuition in 2009-10 for all grades of private day schools was $17,880. For boarding school, the average annual tuition was $34,900.

Is aid available? Definitely, and that's why it's important to keep your ear to the ground as part of your overall planning strategy. Just remember that grants and scholarships are the best form of financial aid because they don't have to be paid back. Financial aid grants for private elementary and secondary schools are awarded on the basis of demonstrated need, just like college. According to NAIS, the average endowment per student during 2009-10 was $19,122. This is why it is important to check the size of the endowment fund at any school you consider – that's money that the school keeps in reserve to invest so it can extend aid to families in need. Many faith-based schools offer discounts to those families that are supporting the church sponsoring the school. Also look into discounts for additional children attending the same school.

The application process: Most schools use the Parents' Financial Statement (PFS) from the School and Student Service for Financial Aid (SSS). This is a service owned by NAIS that helps schools determine how much a family can afford to pay for school tuition and other educational expenses. The form considers how many children you're paying tuition for in K-12 or college and how high the cost of living is in your area. The wealth of the grandparents is rarely considered in the determination of assistance.

Consider a Coverdell Account: While the best solution will differ by family, one savings vehicle might be a Coverdell Education Savings Account. Coverdell accounts are trusts created to save money for a child's primary, secondary or college education. Contributions are relatively small , $2,000 per beneficiary from all sources during the year. Yet since Coverdell accounts are considered the asset of the account owner, you may want to keep it in a parent's or grandparent's name since an account in the student's name could adversely affect financial aid eligibility.

Gifting: If you're the grandparent, you can save for your grandchild's education without triggering the gift tax obligation. Each grandparent can give up to $13,000 tax-free to each child per year.

Material in this newsletter is written or produced by Haisman Wealth Management, Inc., other local professionals and the Financial Planning Association, the membership organization for the financial planning community.

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